

Financial Forecast

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FINANCIAL FORECAST

FINANCIAL FORECAST

The Financial Forecast for FY 2003 has been developed in accordance with Budget Guidelines adopted by the Board of Supervisors on April 23, 2001. These guidelines serve as an important tool in the process of budget development. As resolved by the Board, the guidelines:

1. Limit the increases in County expenditures and the County's Transfer to the Fairfax County Public Schools to the rate of increase in revenues.
2. Require that County available balances, not necessary to support expenditures of a critical nature or to address the Board's policy on the Revenue Stabilization fund, be utilized as follows:
 - One-half will be allocated to the Schools to support non-recurring requirements.
 - The remaining one-half will be allocated based on a review of paydown construction requirements or other nonrecurring requirements.
3. Direct that non-recurring funds be allocated for non-recurring uses only.

The current Financial Forecast reflects these guidelines. County revenue growth is projected at 6.33 percent in FY 2003. The Real Estate tax base is estimated to increase 9.07 percent, a slower rate of growth than the 13.64 percent rate achieved in FY 2002 due to anticipated moderation in the local residential real estate market.

Increases associated with our growing population as well as pressures placed on County services from business expansion, State mandates, and other factors can not easily be accommodated within the current level of revenue growth. The County will continue to be challenged in order to balance these increasing service requirements and infrastructure needs within the constraints of projected revenue growth. The forecast for FY 2003 limits increases in County expenditures and the transfer to the Schools to the revenue growth rate anticipated in FY 2003 in accordance with the Board's guidelines. However, the forecast for FY 2003 shows a deficit of \$12.4 million in FY 2003. During the next several months, revenue estimates will be reviewed and revised as necessary to adjust to changes in our local economy as well as to reflect current activity in the real estate market. The FY 2003 budget will be developed using these revised projections and County spending will be adjusted to eliminate any deficit.

During the next year, the Board of Supervisors and the County School Board will be conducting an Inventory of County Activities, Programs and Services. The purpose of this activity is to determine cost effectiveness, to evaluate for duplication, to examine for possible elimination, modification, substitution or consolidation when new programs are being considered.

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FY 2003 FINANCIAL FORECAST (millions)

	FY 2000 ACTUAL	FY 2001 ADOPTED	FY 2001 REVISED	FY 2002 ADOPTED	FY 2003 FORECAST
Available Beginning Balance	\$43.22	\$15.30	\$88.48	\$0.00	\$0.00
Reserves Balance	51.92	40.47	0.00	45.06	46.15
REVENUE:					
Real Estate Taxes	\$1,000.80	\$1,082.15	\$1,084.04	\$1,226.14	\$1,336.73
Personal Property Taxes ¹	398.23	417.62	434.59	446.18	459.32
Other Local Taxes	343.20	356.92	356.67	372.20	392.65
Permits, Fees, and Licenses	33.65	34.12	33.89	33.89	34.04
Fines and Forfeitures	7.58	11.24	8.74	11.60	12.18
Revenue from Use of Money/Property	49.58	63.21	59.03	44.67	44.67
Charges for Services	29.57	32.15	31.41	33.00	34.62
Revenue from the Commonwealth ¹	84.45	86.41	86.50	93.43	91.74
Revenue from the Federal Govt.	34.21	39.96	37.17	38.77	39.54
Recovered Costs/Other Revenue	11.08	11.59	5.63	5.78	6.01
TOTAL REVENUE	\$1,992.36	\$2,135.37	\$2,137.67	\$2,305.66	\$2,451.49
TRANSFERS IN	1.52	1.68	1.68	2.91	1.65
TOTAL RECEIPTS	\$1,993.88	\$2,137.05	\$2,139.35	\$2,308.58	\$2,453.15
TOTAL AVAILABLE	\$2,089.03	\$2,192.82	\$2,227.84	\$2,353.64	\$2,499.30
EXPENDITURES:					
Personnel Services	\$418.02	\$457.92	\$452.94	\$483.01	\$513.56
Fringe Benefits	95.17	107.06	108.71	111.52	118.57
Operating Expenses	269.15	290.94	298.78	306.94	326.35
Capital Equipment	7.56	6.86	10.32	3.95	4.20
Work Performed for Others	(28.18)	(43.34)	(31.40)	(32.36)	(34.40)
TOTAL EXPENDITURES	\$761.72	\$819.45	\$839.35	\$873.05	\$928.27
TRANSFERS OUT:					
Schools	\$897.41	\$985.23	\$988.00	\$1,078.09	\$1,146.33
G O Debt (County)	94.61	94.67	94.67	98.01	103.56
G O Debt (Schools)	89.46	95.25	95.25	105.53	110.46
CSB	58.68	65.77	67.94	74.37	79.07
Metro	7.05	12.67	12.67	11.45	12.60
Paydown Construction	23.36	19.42	22.00	7.97	15.00
County Transit	18.78	15.90	15.90	16.06	20.73
Other Transfers	15.67	23.07	23.96	29.57	31.44
Information Technology	15.84	18.39	18.39	13.40	15.00
TOTAL TRANSFERS OUT	\$1,238.82	\$1,330.37	\$1,343.43	\$1,434.44	\$1,534.19
TOTAL DISBURSEMENTS	\$2,000.54	\$2,149.83	\$2,182.77	\$2,307.49	\$2,462.46
ENDING BALANCE	\$88.48	\$43.00	\$45.06	\$46.15	\$36.84
Managed Reserve	40.47	43.00	43.66	46.15	49.25
Set Aside Reserve	0.00	0.00	0.00	0.00	0.00
TOTAL AVAILABLE	\$48.01	\$0.00	\$1.41	\$0.00	(\$12.41)

¹The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

FINANCIAL FORECAST

REVENUE ASSUMPTIONS

The FY 2003 revenue estimates are based on a review of current and projections of future economic conditions. Projecting growth in County revenues has been especially complicated by the recent changes in economic indicators and the uncertain direction of the economy over the next two years. While the U.S. economy outperformed expectations in 2000, most economists are forecasting weaker economic growth for calendar year 2001. The economy, as measured by the Gross Domestic Product, grew 5.0 percent in 2000, a full percentage point greater than the 4.0 percent achieved in 1999. However, growth dropped to a 1.3 percent annual rate during the first quarter 2001, the worst of any quarter since the spring of 1995 when the economy was close to recession. Consumer Confidence, a leading indicator of the economy, has dropped 18.3 percent since the beginning of FY 2001 and is at its lowest level in four years. In an effort to boost consumer and business spending and to keep the economy out of a recession The Federal Reserve has lowered interest rates five times during the first five months of 2001 for a total of 250 basis points. The Federal Reserve indicated that interest rates will be cut further if the economy continues to show signs of deterioration. Most economic indicators on the local level are also pointing toward deceleration in 2001. The County's economic advisor, Dr. Stephen Fuller expects that the degree of downturn will be mitigated by the strength in some sectors of our local economy. The significant level of federal procurement in the area, in addition to a more service oriented economic structure will lessen the impact of an economic slowdown. Although most economists are not projecting a recession for the area in FY 2003, slower growth is anticipated.

Total General Fund revenues are projected to increase 6.33 percent in FY 2003. This moderation from FY 2002 is primarily due to anticipated changes in Real Estate Taxes, which represent approximately 53 percent of total General Fund revenue. The Financial Forecast assumes an overall increase in real estate values of 9.07 percent in FY 2003. Total equalization, or the reassessment of existing property, is anticipated to increase 6.28 percent in FY 2003. Housing in Fairfax County has experienced substantial price appreciation during the past year driven by high demand, coupled with a tight supply and low mortgage costs. In FY 2002, residential equalization rose 11.26 percent. While mortgage interest rates are expected to remain low, slowing job growth and lower consumer confidence are anticipated to ease the demand for housing in FY 2003. A moderate increase in residential equalization is expected in FY 2003 with the values of residential properties projected to increase 7.00 percent.

In FY 2002, all categories of existing nonresidential property experienced equalization increases, although some grew at a slower rate than in FY 2001. Values of mid and high rise offices gained 6.54 percent while low rise offices increased 7.30 percent, fueled in part by the County's low office vacancy rate, which was 3.5 percent at year-end 2000, down from the 4.8 percent rate registered at yearend 1999. The office vacancy rate is expected to rise over the next year as new buildings are completed and employment reductions especially in the tech sector increase the amount of sublet space. Commercial office properties are expected to experience moderate increases in value in FY 2003 due to continued low but rising vacancy rates. Hotel properties rose 6.58 percent in FY 2002, the second consecutive drop in growth. This trend is projected to continue into FY 2003 in response to the slowing economy. The combined Retail and Regional Malls categories rose modestly in FY 2002, increasing 2.68 percent. An overabundance of retail space is anticipated to constrain the growth in this category during FY 2003. Overall, existing nonresidential properties are anticipated to increase 4.5 percent in FY 2003.

In addition to equalization, the remaining increase in Real Estate value is due to new construction or normal growth. New construction is expected to increase at a somewhat lower rate during FY 2003 as a result of slowing economic conditions, rising 2.79 percent compared to 3.93 percent in FY 2002.

Total Current Personal Property Tax revenues, which represent 19.4 percent of total General Fund revenue, are expected to increase 2.7 percent in FY 2002. This is the lowest growth rate in ten years and is due to accelerated depreciation of used vehicles. As a result, average vehicle levy is projected to decline 0.8 percent in FY 2002. The volume of vehicles and the business component of the Personal Property Tax base are expected to experience moderate growth in FY 2003. The overall FY 2003 revenue estimate for Current Personal Property Tax revenues represents growth of 3.0 percent, a level consistent with FY 2002.

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Based on the Personal Property Tax Act of 1998, the Virginia General Assembly approved a plan to eliminate the Personal Property Tax on vehicles owned by individuals over a five-year period. In FY 1999, the first year of implementation, taxpayers were billed for the entire amount of tax levy and received a refund of 12.5 percent of the tax on the first \$20,000 of the value of their personal vehicle from the Commonwealth of Virginia. Vehicles valued less than \$1,000 were refunded 100 percent. In FY 2000 and FY 2001, the PPTRA reduced the Personal Property Taxes paid by citizens by 27.5 percent and 47.5 percent, respectively with an offsetting reimbursement paid to the County by the Commonwealth. The percentage reduction in taxes paid by citizens is anticipated to be 70.0 percent in FY 2002. Under the original approved plan, taxes paid by individuals would be reduced by 100 percent in FY 2003. It should be noted that the PPTRA has no impact on the assessment or projection of total Personal Property Tax revenues

Business activity and consumer spending are expected to be moderate in FY 2003. BPOL Tax revenues and Sales Tax receipts are both projected to increase 6.0 percent in FY 2003, the same rates projected for FY 2002.

Excluding revenues from the Commonwealth of Virginia associated with the reimbursement of Personal Property Taxes; Revenue from the Commonwealth and Federal Government is expected to increase 6.9 percent FY 2002. This increase is primarily due to one time construction reimbursement anticipated to be received in FY 2002 and an increase in HB599 Law Enforcement funding based on General Assembly action. During FY 2003, modest growth is expected in Public Assistance reimbursement categories, while other revenues such as HB599 Law Enforcement funding are anticipated to remain constant at FY 2002 levels. Overall growth in Revenue from the Commonwealth and Federal Government of 1.7 percent is anticipated in FY 2003.

Building and Permit fee revenue is anticipated to decline 1.9 percent in both FY 2001 and FY 2002. This revenue is a reflection of the construction industry, as well as the size and complexity of projects submitted for review. The slowdown in FY 2001 and FY 2002 is indicated by current year-to-date revenues, a decline in major site and subdivision plans submitted and a reduction in the number of applications for planning and zoning. These fees are anticipated to stabilize and remain at their FY 2002 level in FY 2003.

Revenue growth rates in other categories such as Automobile Licenses, Consumer Utility taxes and Charges for Services are shown in the following table:

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REVENUE GROWTH RATES

Category	FY 2001	FY 2002	FY 2003
Real Estate Tax - Assessment Base	8.94%	13.64%	9.07%
Equalization	5.13%	9.70%	6.28%
Residential	5.13%	11.26%	7.00%
Nonresidential	5.15%	5.92%	4.50%
Normal Growth	3.81%	3.94%	2.79%
Personal Property Tax - Current ¹	10.15%	2.70%	3.00%
Local Sales Tax	6.50%	6.00%	6.00%
Business, Professional and Occupational, License (BPOL) Taxes ²	6.00%	6.00%	6.00%
Recordation/Deed of Conveyance	21.77%	-17.88%	0.00%
Automobile Licenses	2.30%	2.30%	2.30%
Consumer Utility Taxes	6.39%	4.00%	4.00%
Building Plan and Permit Fees	-1.94%	-1.90%	0.00%
Charges for Services	6.20%	5.07%	4.89%
State/Federal Revenue ¹	4.23%	6.89%	0.69%
TOTAL REVENUE	7.29%	7.86%	6.33%

¹ The portion of the the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

² Including the elimination of BPOL Taxes on the gross receipts of electric and natural gas utility companies, BPOL Tax revenues are anticipated to grow 3.37 percent in FY 2001.

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DISBURSEMENT ASSUMPTIONS

Direct Expenditures

As noted earlier, increases in County expenditures presented herein reflect the projected growth in County revenues. As such, direct expenditures increase 6.33 percent in FY 2003. Based on the projected direct expenditure funding level, requirements associated with pay for performance, market rate adjustments, health insurance, retirement plan increases, and inflationary growth will leave little flexibility for expansion of services necessitated by population growth or new facilities. In order to provide for compensatory and inflationary increases, as well as cost requirements associated with future new facilities, reductions may be required in other parts of the County's budget in order to stay within the Budget Guidelines.

Transfers Out

School Transfer

The Financial Forecast includes an increase in the School transfer consistent with the rate of revenue growth as directed by the Budget Guidelines.

Metro

The transfer requirements for Metro Operations and Construction reflect annual increases of 10.0 percent based on projected inflationary increases for continued Metrorail and Metrobus service

Debt Service

The Debt Service requirements reflect increases required to support the level of bond sales approved by the Board of Supervisors as part of the FY 2001 - 2006 Capital Improvement Program (With Future Years to 2009). This level of funding will support bond sales of \$192.2 million in FY 2003.

Paydown

Paydown capital construction includes transfers from the General Fund to support construction and renovation of capital projects. The projected annual transfer for paydown construction is \$15.0 million. It should be noted that the County's paydown construction program had been constrained in the early and mid 1990's based on budget limitations, deferring essential maintenance and repair costs and new construction of necessary public improvements. The projected level of paydown funding through FY 2003 will provide for essential maintenance and repair in order to protect and extend the operation of County facilities.

Transfer to Fairfax-Falls Church Community Services Board

The General Fund transfer support of the Fairfax-Falls Church Community Services Board is consistent with the rate of revenue growth as directed by the Budget Guidelines.

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Information Technology

The General Fund supports the County's investment in major Information Technology (IT) initiatives. Based on a recommendation from the County's Information Technology Advisory Group, the Financial Forecast includes a \$15 million IT transfer in FY 2003. The County's Information Technology Advisory Group (ITAG), a private sector advisory group established by the County Executive to investigate the condition of the County's IT resources, recommended significant increases in County support of the IT infrastructure. Identifying a total requirement of \$95 million, the ITAG recommended annual spending of \$15 to \$20 million.

Other Transfers/County Transit

An increase of 6.33 percent has been included for other transfers in FY 2003. A total of \$20.7 million is included for County Transit in FY 2003 based on a projected increase of 4.0 percent in costs associated with the CONNECTOR bus system and a 5.0 percent increase in Commuter Rail contributions. In addition, funding has also been included as a planning factor for the purchase of replacement buses. Pending the availability of sufficient funding during the FY 2003 budget development, an amount of \$4.0 million may be set aside to establish a bus replacement reserve fund. This amount will be in lieu of "pay-as-you-go" funding. In concert with a more equally spread out bus replacement schedule, this annual rate of funding will provide sufficient replacement funds for the existing fleet of 163 in the reserve through at least FY 2026.